

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 SCI-06 FEA-02 INT-08 IO-14

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E.O. 11652: N/A

TAGS: ENRG, JA

SUBJECT: ENERGY: EFFECT OF ENERGY PROBLEM ON JAPANESE
PETROCHEMICAL INDUSTRY

STATE ALSO FOR T/IEP

SUMMARY: ASSOCIATION OF PETROCHEMICAL INDUSTRIES IN
JAPAN (APIJ), IN DISCUSSIONS WITH EMBOFF, STATED THAT
PRODUCTION CUTBACKS ARE LESS THAN PRESS HAD REPORTED
AND LESS THAN INDUSTRY HAD PREDICTED AT ONSET OF ENERGY
PROBLEM. THIS DUE TO INDUSTRY ABILITY, IN GENERAL, TO
ARRANGE WITH REFINERS FOR SMALLER CUTBACKS IN BASIC
RAW MATERIAL, NAPHTHAN, IN EXCHANGE FOR LARGER CUTBACKS
IN PETROLEUM FUEL PRODUCTS. INDUSTRY THEN ABLE TO USE
SOME PETROCHEMICAL BY-PRODUCTS AS FUEL. DISPARITY BETWEEN
CTBACKS OF ETHYLENE OF 10 PERCENT AND DOUBLE THAT AMOUNT
OF ETHYLENE DERIVATIVES DUE TO MIX OF SEVERAL FACTORS.
MOST IMPORTANT IS SERIES OF PLANT ACCIDENTS WHICH AFFECTED
NUMBER OF DERIVATIVE PLANTS AND ONE ETHYLENE PLANT.
GREATEST CONCERN TO INDUSTRY IS RISE IN PRICE OF NAPHTHA
FROM 8,000 YEN/KL EARLIER LAST YEAR TO 12,000 YEN/KL
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IN DECEMBER AND EXPECTED RISE TO 20,000 YEN/KL AROUND

END OF FEBRUARY. ALLEGED PRICE CARTEL FORMED BY PETRO-CHEMICAL COMPANIES FOR PRICE OF DERIVATIVE PRODUCTS, POLYETHYLENE AND POLYPROPYLENE, HAS BEEN DISBANDED AFTER CRITICISM AND ORDER BY FAIR TRADE COMMISSION, AND PRICES HAVE BEEN REDUCED IN ACCORDANCE WITH SUBSEQUENT MITI ADMINISTRATIVE GUIDANCE. END SUMMARY

1. IN DISCUSSION WITH ASSOCIATION OF PETROCHEMICAL INDUSTRIES IN JAPAN, APIJ, ON EFFECT OF ENERGY PROBLEM ON JAPANESE PETROCHEMICAL PRODUCTION, MANAGING DIRECTOR, MASAO TAKASAKA STATED THAT ACTUAL PRODUCTION CUTBACKS ARE LESS THAN PRESS HAD REPORTED AND LESS THAN PETROCHEMICAL INDUSTRY HAD PREDICTED AT ONSET OF ARAB OIL SHIPMENT REDUCTIONS.

2. SUPPLY OF PETROLEUM PRODUCTS AS WHOLE TO PETROCHEMICAL INDUSTRY WAS REDUCED ON NOVEMBER 20, 1973. ACCORDING TAKASAKA, AMOUNT OF CUTBACKS VARIED SIGNIFICANTLY BETWEEN INDIVIDUAL COMPANIES BASED ON THEIR CONTRACTS WITH REFINERS. IN GENERAL, INDUSTRY WAS ABLE TO CHOOSE SMALLER CUTBACKS IN NAPLA, BASIC RAW MATERIAL FOR MOST PETROCHEMICAL PRODUCTS INCLUDING ETHYLENE. THIS WAS IN EXCHANGE FOR LARGER CUTS IN PETROLEUM FUEL SUPPLY PRODUCTS TO INDUSTRY WHICH INDUSTRY WAS ABLE TO COMPENSATE FOR IN PART BY USING SOME PETROCHEMICAL BY-PRODUCTS FOR FUEL. AS RESULT, PRODUCTION OF KEY PETROCHEMICAL "CORE" PRODUCT, ETHYLENE, IN DECEMBER 1973 WAS CUT ONLY 10 PERCENT FROM JULY, 1973 ESTIMATE.

EM FORECAST IN JULY, 1973 FOR DECEMBER PRODUCTION WAS 380,000 METRIC TONS (MT). AT TIME OF FIRST ANNOUNCED OIL CUTBACKS FORECAST ADJUSTED TO 310,000 MT. ACTUAL FIGURE WAS APPROXIMATELY 340,000 MT. TOTAL FOR YEAR OF 4,112,000 MT WAS 3 PERCENT BELOW JULY, 1973 FORECAST AND 8 PERCENT HIGHER THAN PRODUCTION IN CY 1972.

4. APIJ EXPLAINED THAT DISPARITY REPORTED BY PRESS BETWEEN ETHYLENE CUTBACK OF APPROXIMATELY 10 PERCENT FROM JULY FORECAST AND CUTBACKS OF SOME ETHYLENE DERIVATES AND FINAL PRODUCTS OF DOUBLE THAT AMOUNT, WAS DUE TO UNCLASSIFIED

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COMPLEX SET OF FACTORS. THESE INCLUDE PLANT EXPLOSIONS LAST YEAR WHICH OCCURRED IN ONLY ONE ETHYLENE PLANT BUT IN SEVERAL DERIVATIVE PLANTS AND SHORTAGES IN SUPPLY OF BENZENE (ONE OF "CORE" MATERIALS FOR DERIVATIVES PRODUCTION) WHICH IS ALSO USED AS GASOLINE ADDITIVES AND SOME OF WHICH IS EXPORTED TO THE U.S. (3 PERCENT OF TOTAL PRODUCTION IN FIRST ELEVEN MONTHS, 1973).

5. APIJ STATED THAT AS RESULT OF OIL PROBLEM PETROCHEMICAL INDUSTRY'S PRINCIPAL CONCERN IS RISE IN PRICE OF NAPTHA FROM WHICH A NUMBER OF KEY "CORE" PRODUCTS ARE EXTRACTED (ETHYLENE, PROPYLENE, BUTANE AND BUTYLENE, TOP GAS AND RELATED PRODUCTS, AND CRACKED OIL) FROM 8,000 YEN PER KILOLITER BEFORE OIL CUTBACKS TO 12,000 YEN/KL IN DECEMBER, 1973 AND AN EXPECTED RISE TO APPROXIMATELY 20,000 YEN/KL TOWARDS END OF FEBRUARY. OTHER INDUSTRY SOURCES BELIEVE THIS PRICE INCREASE COULD LEAD TO SHIFTING OF DEMAND FROM SOME PETROCHEMICAL PRODUCTS BACK TO SUBSTITUTE PRODUCTS SUCH AS PAPER, WOOD, AND METALIC PRODUCTS WHICH IN RECENT YEARS HAVE BEN REPLACED BY PETROCHEMICAL PRODUCTS.

6. IN NOTING THAT CUTBACKS IN PETROCHEMICAL INDUSTRY HAD NOT BEEN AS LARGE AS EXPECTED IN SOME SECTORS AND THAT OTHER COUNTRIES, PERHAPS EXCEPTING THE U.S. BECAUSE OF ITS OWN NATIONAL RESOURCES, SUFFERED SIMILAR CUTBACKS IN SUPPLY AND RISES IN SUPPLY PRICE, APIJ DID NOT FORESEE JAPAN SIGNIFICANTLY INCREASING ITS IMPORT OF PETROCHEMICAL PRODUCTS IN LONG RUN. IN SHORT RUN INDUSTRYMIGHT EXPLORE POSSIBILITY OF IMPORTS FROM U.S., BUT REALIZE THAT SUPPLY PETROCHEMICAL PRODUCTS IN U.S. ALSO TIGHT. ACCORDING TO OTHER INDUSTRY SOURCES, OVERSEAS INVESTMENT PLANS OF JAPANESE PETROCHEMICAL COMPANIES WILL CONTINUE TO BE MADE WITH SAME CONSIDERATIONS EXISTING BEFORE EMERGENCE OIL PROBLEM STILL VALID (INCREASING COSTS OF POLLUTION CONTROL IN JAPAN, LOWER LABOR COSTS ABROAD, AND CLOSENESS TO SOURCE OF RAW MATERIALS.)

7. PREDICTIONS MADE BY APIJ AND OTHER INDUSTRY SOURCES REGARDIG IMPORTS AND INVESTMENT PREDICATED ON ASSUMPTION OF NO FURTHER INCREASES IN RAW MATERIAL OR OTHER COSTS OF UNCLASSIFIED

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PRODUCTION AFTER ALREADY ANTICIPATED RISE IN PRICE OF NAPTHA AT END OF FEBRUARY. IF OTHER LARGE COST INCREASES OCCUR, APIJ FORESEES LONG RUN POSSIBILITY OF SOME JAPANESE COMPANIES DEFERRING PLANT EXPANSION AND ATTEMPTING TO SIGNIFICANTLY INCREASES EXPORTS FROM THEIR U.S. PARTNERS (THERE ARE MORE THAN 15 JOINT VENTURES BETWEEN U.S. AND JAPANESE PETROCHEMICAL COMPANIES.).

8. ON SEPARATE BUT RELATED ITEM, AT TIME OF OIL CUTBACKS PETROCHEMICAL PRODUCERS FORMED PRICE CARTEL AND RAISED PRICES OF POLYETHYLENE AND POLYPROPYLENE FROM 115-125 YEN/KG TO 170 - 180 YEN/KG AND WERE ORDERED JANUARY 23, 1974 BY FAIR TRADE COMMISSION (FTC) TO CEASE PRICE CARTEL. FTC BELIEVED THAT INCREASED RAW MATERIALS COST WAS ONLY 30 YEN/KG AND THAT OTHER 20 YEN/KG INCREASED

WAS EXCESS PROFIT TO PRODUCERS. ACCORDING TO INDUSTRY
SOURCES, PRODUCERS HAVE NOW AGREED TO FTC ORDER TO
ABANDON ANY PRICE AGREEMENT THEY MIGHT HAVE HAD, ALTHOUGH
COMPANIES RELUCTANT TO ADMIT EXISTENCE PRICE CARTEL
PUBLICLY, AND TO FOLLOW MITI ADMINISTRATIVE GUIDANCE
TO REDUCE PRICES BY ABOUT 10 - 15 YEN/KG.
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